Subject to approval by the Committee on Energy

Legislative Council
Committee on Energy
June 2, 2004
House Majority Caucus Room
Statehouse
9:30 a.m. (MDT)
Minutes

The meeting was called to order at 9:40 a.m. by Cochairman Representative George Eskridge. Committee members present were Senator Laird Noh, Senator Joe Stegner, Senator Elliot Werk, Representative Bert Stevenson, Representative Steve Smylie and Representative Charles Cuddy. Cochairman Senator Brent Hill, Senator Sheila Sorensen and Representative Maxine Bell were absent and excused.

Others present were Bob Neilson, INEEL; LeRoy Jarolimek, Wind Advantage; Representative Ann Rydalch, District 32 and INEEL; Doug Glaspey, U.S. Geothermal; Lawrence Schoen, Napuisunaih Ranch; Rich Rayhill, Dar Olberding and Stan Boyd, Ridgeline Energy; Dich Rush, IACI; Brian Jackson, Renaissance Engineering and Design PLLC; Ron Williams, ICUA/MVP; Russ Hendricks, Farm Bureau; Brenda Tominaga, Idaho Irrigation Pumpers Association; Richard Fassino; Robert Hoppie, Idaho Energy Division; James T. Cankulis, XRG; Peter Richardson, Industrial Customers of Idaho Power; Mike Elliott, David Evans and Assoc.; Karl Bokenkamp and Rich Hahn, Idaho Power; Russell Westerberg, PacifiCorp; Pike Teinert, Energy Strategies Group and Neil Colwell, Avista.

On a motion from **Representative Stevenson** and a second from **Senator Noh** the corrected minutes of the January 22, 2004 meeting were approved.

Mr. Brian Whitlock from the Governor's office was introduced to discuss why HB760 and HB761 were vetoed. He stated that these two bills were on the governor's desk to be signed at the same time the news of the declining March revenue numbers was received. When the 2005 budget was set, it was anticipated that the state would finish 2004 with a sizable surplus estimated at $72 million. Other optimistic pieces of legislation included surplus eliminators if the state exceeded $77 million. In January and February some serious declines in state revenues had been seen that were below projections. The Governor was hopeful March would make up some of that ground. That was not the case, March showed another deficit. HB760 and HB761 both had sizable fiscal impacts attached regarding incentives. The Governor had to weigh the option of signing these bills into law against the need for the state to have a surplus on hand at the end of 2004 to protect the budget for 2005 and 2006.

Mr. Whitlock said that was the only reason for the vetoes. The bills are technically sound and the Governor's Office is hopeful that the committee will continue to discuss incentives for renewable energy development and to bring legislation forward. The Governor's Office is hopeful that the economy will be in a better situation and that state will be in a better fiscal situation to support these types of incentives in the near future.

Representative Smylie commented that the committee struggled with the fiscal impact of these bills because it was difficult to put a number on something that has not happened. He added that although there is a fiscal impact involved, the development of renewable energy projects would also have increased revenue through sales tax on equipment purchased and so on. Weighing the economic benefit with the fiscal impact would probably have balanced out. He asked if any consideration was given to the fact that, without these incentives, the state would lose out on the development of these energy sources that could bring a huge benefit to the state in terms of energy being produced within the state as well as the other economic benefits involved. **Mr. Whitlock** answered that in the Governor's veto message he indicated that should the federal energy bill pass, it would include some additional incentives for alternative energy development. That message was intended to make it clear that from a technical standpoint, there were no concerns with the legislation. It was strictly the fiscal impact these bills carried. For those that want to pursue this type of development, this message was intended to outline all of the other options that are still available.

Senator Noh asked if an independent analysis of the fiscal impact of these bills was done by the Governor's Office. **Mr. Whitlock** stated that the state economist and the State Tax Commission were asked to give assessments on the impact these bills would have. These assessments included looking at the ancillary benefits that would be provided. He added that it came down to the fact that both of these pieces of legislation contained a bottom line. **Senator Noh** asked if the committee could have copies of those analyses. **Mr. Whitlock** said the meetings were mostly verbal but that he would try to get that data for the committee.

Representative Cuddy asked if any studies have been done by the Governor's Office as to which types of incentives would be the most conducive to improving the state's economy. **Mr. Whitlock** said they did not look at the legislation in that way. He noted that the Governor is supportive of incentives and wants to encourage this type of investment and development of alternative energy.

Representative Stevenson commented that this legislation was modeled after the Broadband tax incentives and that Broadband gets a lot of support while alternative energy seems to not have any merit. **Mr. Whitlock** said that while the Broadband incentives will have no fiscal impact until 2006, the alternative energy legislation would have impacted the 2005 budget year and the Governor felt that the state could not afford it.

Representative Eskridge stated that, in developing the legislation, the committee assumed that without incentives there would be no alternative energy development. Also, it was felt that there would not be a fiscal impact because without a project, there is no impact. He added that the

committee also considered the positive impact these projects would have on local economies in areas of employment, property tax benefits and so on. The committee felt that Idaho has been fortunate to be able to use hydro power that is located within the state to meet most of its needs. The concept of developing renewable energy within the state instead of buying this energy outside the state was seen as a way to stabilize and make sure the state's energy future was secure. He asked if the Governor's Office had any discussions regarding these other considerations since the Western Governor's Conference is supporting renewable energy. **Mr. Whitlock** said that, in his opinion, everyone is on the same page. It is understood that there are benefits to the state, benefits to the energy grid and to the local economies and communities. From a policy standpoint, this legislature and the executive branch are all on board in terms of recognizing the need to move forward and find alternative solutions to our energy needs. The question is what is the state's role. The executive branch believes that the state's role should be to offer incentives and encouragement to begin development of alternative energy. All of these elements were part of the discussion.

In response to a question from **Representative Smylie, Mr. Whitlock** stated that the technical aspects of these bills were acceptable to the Governor. A bill identical to either of these pieces of legislation would be looked upon favorably. The concern lies with the bottom line and whether the state can afford to support such a measure. In his opinion, the Governor wants an economy that will allow these types of incentives and offered to work with the committee toward this goal.

Representative Eskridge commented that it appears the committee needs to discuss what other options are available besides incentives. Timing, in terms of when these renewable resources would be coming on line both with and without incentives being offered is also important. This is important because the purpose of incentives is to make something happen that would not happen otherwise. The concept is how to get something started that wouldn't start on its own and what are the benefits of doing that.

Mr. George O'Connor from U.S. Senator Larry Craig's Office spoke to the committee by telephone regarding the status of the Federal Energy legislation. He expressed some optimism that the federal energy bill might still pass before Congress adjourns. The plan that was most recently derailed attempted to attach the full energy policy bill to the Fisk ETI tax bill when it went to conference.

In response to a question from **Representative Eskridge, Mr. O'Connor** explained that the energy tax package included in the Fisk ETI Jobs bill contains a number of renewable energy provisions. Those provisions extended the placed in service date for wind, close loop biomass and poultry waste facilities. It added open loop biomass, geothermal energy, solar energy, small irrigation power, municipal biosolids and recycled sludge as qualifying energy resources. The credit was 1.8 cents per kilowatt hour with no inflation adjustment for facilities placed in service after the date of enactment. This title also allowed for tradable tax credits for tax exempt entities. This bill was actually passed and is waiting for House action.

Mr. O'Connor said that the policy bill provided some new incentives for the increased development and use of clean and renewable energy. It also mandates a federal renewable energy resources assessment to assist in the long term planning for expansion of renewable energy production. It encourages the exploration and development of geothermal energy including a call for a rule making on a new royalty structure. This legislation streamlined the licensing of hydro electric facilities and also provided grants for turning forest materials from high risk areas for fire and disease into biomass energy.

Representative Eskridge asked if the state proposal that allowed for a production tax credit of a certain amount would override the federal incentive. **Mr. O'Connor** said that he did not recall specific language in the energy policy bill that would restrict state actions in lieu of getting the federal 1.8 cent per kilowatt hour credit. In his opinion, the state can develop its own policies that meet certain needs and if the state offered a tax credit, it would not impede getting a similar federal credit. He suggested the committee get advice on this from a lawyer that specifies in tax law to be sure.

Mr. O'Connor said that he was still optimistic that this federal energy legislation would move forward. There is pressure building for some form of action to address the different energy crises that are occurring. There is no question that the United States is ready for an energy bill and the average citizen overwhelmingly supports such an action. Whether there will be enough pressure in Congress to gain support is the big question. He noted in 1992 the last thing Congress did before adjournment was to pass the Energy Policy Act of 1992. There are different dynamics at work today but it could still happen.

In response to a question from **Senator Noh, Mr. O'Connor** noted that there is a recent GAO report stating that one of the primary reasons for the increase in gas prices is due to the fact that too many mergers of oil companies have taken place in the last several years. There are those who challenge that and **Mr. O'Connor** said he has not had time to analyze that report. He commented that since 1972 there have been at least 29 or 30 investigations by the Federal Trade Commission, by state Attorney General's offices and others looking into collusion and anti-trust violations. Every single one of those reports have found that not to be true. It was found instead to be a supply and demand problem that was the sole reason for the increase in gas prices. **Mr. O'Connor** said that, in his opinion, the world is running out of opportunities to get reserves. China's economy alone last year put an additional 30% demand on the world's oil reserves. This is huge burden on existing reserves.

Representative Eskridge asked if the federal energy bill still contains renewable portfolio standard language. **Mr. O'Connor** said that did not get in to either HR6, which was the conference report or S2095 that is the paired down energy bill that was offered earlier this year. There does not seem to be any willingness on the part of the majority to included any mandatory percentages of renewable fuels as things stand currently. In response to another question from **Representative Eskridge, Mr. O'Connor** said that **Senator Craig** is next in line to become chairman of the Energy Committee for the republicans. This would happen if the republicans hold the majority and **Senator Domenici** decides to move to another committee.

Representative Ann Rydalch asked what the fall back plan is should the energy bill not get passed. **Mr. O'Connor** said that there is no discussion of breaking up the bill. The House will be having energy week next week and they will review HR 6 and reiterate their support for that bill. The House is also going entertain passage of different portions of it. **Mr. O'Connor** has learned that there is no real support for this. **Senator Domenici** did try put S2095 as a second degree amendment to the Ethanol provision amendment under the Internet Tax bill and the ethanol amendment failed. This was the first time that ethanol had lost a vote in the U.S. Senate and possibly in Congress. This is a signal to the Chairman that no one, at least in the Senate, is prepared to breakup up the bill and start passing portions of it.

Mr. Brian Jackson, Renaissance Engineering and Design, asked if there is any indication that the incentives offered in the Energy Bill would be retroactive for projects that get build before the bill is passed. **Mr. O'Connor** said that it is his belief that none of the provisions are retroactive. He stated he would check on that to make sure.

Mr. Rich Rayhill, Ridgeline Energy, spoke to the committee regarding **HB827.** This was a bill that offered a sales tax exemption for alternative energy projects. He distributed a statement of purpose and fiscal impact summary of the sales tax exemption. This handout includes the economic impact of a 100 MW wind farm on a local economy and a state economy. It also includes a comparison of the six states surrounding Idaho as well as the top ten wind states and the incentives those states offer. The state of Washington, Nevada and Wyoming's sales tax exemption for renewables statute are also part of this handout.

Mr. Rayhill said that the problem renewable energy is facing in Idaho is the fact that surrounding states exempt renewal energy generating equipment from sales tax. All of the six surrounding states either do not charge a sales tax or they exempt renewables. All of the states except Utah do not have a property tax or renewable energy generating equipment is exempted from it. Idaho is the only state that imposes both sales tax and property tax on renewable energy generating equipment. The industry is very small and there is a need to find ways to cut costs in order to be competitive. For 100 MW project the cost can be up to $120 million. If, on top of that, the state charges sales tax at 6%, it becomes very difficult for a project to be developed. Idaho has a great wind resource and **Mr. Rayhill** suggested that in order to promote that resource, Idaho needs to make its wind developers competitive or they will go other places.

In response to a question that was asked earlier, **Mr. Rayhill** stated that offering a state incentive per kilowatt hour in HB761 would not impact the federal incentives. HB760 would cause an 8% reduction of the federal production tax credit. HB760 would reduce the federal production tax credits to all Idaho developers. Also any small developer will lose tax credits because there is no way for them to transfer those credits.

Mr. Rayhill requested that the legislation be simplified by going with the measure that provides the most benefit for the least cost in the renewable energy industry. With the sales tax exemption, renewables get savings that are available in all of the surrounding states in year zero. In a wind farm, the capital costs are all up front and getting this savings in year zero is a

tremendous benefit.

In response to a question regarding the fiscal impact of a sales tax exemption from **Representative Smylie, Mr. Rayhill** said that the likelihood of a renewable project being build without a sales tax exemption are extremely unlikely. If a project is not going to be built, there is no fiscal impact. **Representative Smylie** stated that there is no way the state can do both an investment tax credit and a sales tax exemption for renewable energy. He asked how a sales tax exemption can be offered during times when the state is not that stable financially. **Mr. Rayhill** said that in order to sell this exemption to the general public, he would argue that the sales tax exemption would encourage the growth of an industry that, per 100 MW over the life of a project, will dump $70 million of revenue into the state and local economies. In the first four to six months, it will result in the input of $5 to $7 million into those economies. There will also be other ancillary opportunities such as equipment maintenance.

Representative Eskridge asked how, if Idaho is ranked 13th for wind energy potential, that relates to the competitive nature of building in Idaho compared to surrounding states. He also asked about the issue of transmission. **Mr. Rayhill** said that Wyoming is aggressively addressing the issue of transmission. Wyoming is 7th for wind resources and has transmission that is in various strains of constraint. Wyoming is studying an idea to beef up their transmission system for the purpose of exporting wind energy. **Mr. Rayhill** said that, as he understands it, there are transmission issues coming east and going south but that there are ways to bypass those issues. The development of the resource would probably eventually require increases in transmission capacity. **Representative Eskridge** commented that if wind energy is developed within the state for use within the state, the need for lengthy transmission lines is eliminated. He added that this might overshadow the benefit of a sales tax exemption due to the reduced need for transmission lines. **Mr. Rayhill** said that could be true but there is still the problem of getting the resource to the load centers.

In response to a question from **Senator Stegner, Mr. Rayhill** stated that electric power generation is not given a production sales tax exemption because the end product to the consumer is not taxed. **Mr. Nugent** clarified that when the sales tax act was originally passed, utilities were viewed as necessary commodities. At that time, utility companies were the only ones producing electricity and the production exempt would only apply to goods or services that a sales tax is eventually charged on. So the production exemption would not apply to building an electric generating facility because the end product was not taxed. In this instance, that involved utilities building the facilities and selling the product to consumers and it was felt that giving them two exemptions was unfair. A merchant plan that would sell power to a utility would be charged the sales tax. **Mr. Ron Williams, Idaho Consumer Owned Utilities,** added that there was a kilowatt tax applied on hydro power and so it was decided that a sales tax would not be charged as a compromise. **Senator Stegner** said the he is skeptical of adding sales tax exemptions for these types of projects and due to the history involved in these exemptions, would fear having to reevaluate how power generation and the like are taxed. **Mr. Rayhill** commented that several of Idaho's surrounding states do not tax power as the end product but they do exempt renewable energy generating equipment from sales tax.

Representative Eskridge asked why the investment tax credit provided in HB761 would not benefit wind projects and how that impacts the federal production tax credit. **Mr. Rayhill** said that would involve an 8% benefit within the state that goes directly to capital costs. Since it goes directly to capital costs, the federal legislation and the people that interpret federal legislation have determined that the state incentive will reduce the federal production tax credit by 8%. It has been determined that anything a state does to grants, loans, debt forgiveness or anything that is done against capital costs eats into the federal production tax credit.

Representative Eskridge asked if transferability being written into the investment tax credit bill would provide more of an incentive without offering a sales tax exemption. **Mr. Rayhill** said they would prefer the sales tax exemption but transferability would increase the value of renewable energy projects to small developers. It does however, create the necessity to sell the tax credits on an open market. **Representative Eskridge** stated that the committee is trying to provide just enough incentive to get production started, not to assume all of the risk. He asked what incentives would be enough to get people to develop renewable energy in Idaho. **Mr. Rayhill** said that a sales tax exemption creates a known benefit in year zero to a startup entity and that known benefit is 100%. This puts projects in Idaho on par with those in surrounding states.

Representative Smylie asked if the language in HB827 could be adjusted to add a cap on the size of a facility or the amount of power produced. **Mr. Rayhill** said that, in his opinion, a cap would discourage development. The larger the development put in initially, the more competitive it will be down the road when the sales tax exemption is removed. **Representative Smylie** commented that the committee is trying to find something that will work. It is very difficult to add another exemption to a sales tax code that needs to be simplified. In order to make this work and move forward, compromise is very important.

Mr. Leroy Jarolimek, Wind Advantage, testified in favor of a sales tax exemption for renewable energy projects. He is developing a ten megawatt wind project on his farm. **Mr. Jarolimek** stated that the sales tax is a major expense to these projects. He is using the USDA grant program that provides up to $500,000 to help offset the initial cost of putting in such a project. On the other hand, sales tax on a project negates what is gained from the federal government grant. He also clarified that these federal grants must be paid back once the federal production tax credit runs out. **Mr. Jarolimek** also said that he would be in favor of developing small projects that will fit into the existing transmission grid of the state.

Mr. Doug Glaspey, U.S. Geothermal, commented that a sales tax exemption for renewable energy would provide more benefit than the production tax credit. It is also difficult for a small project to consume the entire production tax credit if they are not transferrable. He added that he was shocked by the Governor's veto of HB760 and 761. In his opinion, the fiscal impact of the incentives offered in these two bill will not be felt until 2006 at the earliest. It takes a lot of time and work to develop renewable energy projects. In comparing the state production tax credit against a sales tax exemption, **Mr. Glaspey** stated that on a straight up and down economic analysis a one dollar benefit in year one is worth a lot more than spreading that dollar over ten

years. HB 760 and 761 that were passed last year would benefit projects such as his but the sales tax exemption provides much more of a benefit.

Mr. Lawrence Schoen, a farmer in Picabo, Idaho, testified in favor of the sales tax exemption for renewable energy. He is working with **Mr. Jarolimek** to develop wind energy on his farm. **Mr. Schoen** stated that a cap on the size of projects would not really effect small developers. In his opinion, capping an equipment sales tax exemption does not make the sales tax code less complicated or that it could be viewed as a compromise. From his point of view, there is a large underestimate of the amount of political goodwill and interest that could be generated by advancing renewable energy sources in the state.

Mr. Schoen asked why energy produced by a merchant energy producer would be subject to the sales tax. **Mr. Nugent** explained that if a merchant natural gas plant was built today, it would be subject to sales tax. This is because the end product is not taxable and does not meet the criteria for the production exemption. HB827 would exempt alternative energy projects from the sales tax and a decision would have to made whether or not to include merchant plants in such an exemption.

Senator Stegner stated that, in his opinion, Idaho does not need to offer a sales tax exemption just because surrounding states do so. He commented that the comments today show that a sales tax exemption for small projects is not significant enough to cause them to move their project out of state. Small projects using local resources such as the last three speakers are the type of project he would like to see developed rather than being concerned about outside investors picking states based on tax benefits.

Senator Stegner continued that this committee has spent many hours considering what to do to encourage renewable energy development and in his opinion, the legislature is also supportive of that. The question remains how to structure it so it will provide the most benefit to the state of Idaho. The committee rejected a renewable portfolio standard that mandates the use of renewables in favor of an incentive based program. This program zeroes in on the income tax portion of the state code because it is consistent with other tax credits for similar activity. It is modest in terms of caps and time frame. Sales tax exemptions have been rejected up to this point. As a committee member, **Senator Stegner** said he would be willing to reexamine that but would caution broadening the sales tax exemptions in this manner.

Mr. Brian Jackson, Renaissance Engineering and Design, said that financing is one of the major obstacles small projects face. To develop a 10 MW wind project on a farmer owned project is a very large investment. Project terms and incentives are important elements to financing. The state incentives that were included in HB760 and 761 were very helpful but they are difficult to model. **Mr. Jackson** added that a sales tax exemption is easy to model and applies directly to the project.

Mr. Ron Williams, Idaho Consumer Owned Utilities and Mountain View Power, testified that for the incentives to work for municipalities or cooperatives, the incentives must include

transferability. He added that in order to support renewable energy, incentives need to be provided on a tax standpoint as opposed to a rate payer funded program or portfolio mandates. The ICUA was very disappointed to see these bills vetoed. On the other hand, the veto gives the state an opportunity to rethink some of the issues. The ICUA would be able to take advantage of a sales tax exemption.

Mr. Williams stated that Mountain View Power did win a bid to build a thermal generation plant for Idaho Power Company that will begin in late May. He commented that sales tax was a huge issue for this project. **Mr. Williams** added that conventional fuels do not need these types of tax credits. Tax incentives help small projects by leveling the playing field. The policy issue involved is to encourage development of new renewable sources of energy. Other states have decided that a sales tax exemption is the biggest bang for the buck for the developer up front and **Mr. Williams** encouraged the committee to consider that as a better economic stimulus tool for renewable energy. Having to pay sales tax puts Idaho producers at a 6% disadvantage to other states right off the bat.

Mr. James Carkulis, President of XRG Energy Group, stated that his group is the developer of a project in Montana that will bring wind power into Idaho. He said that XRG will be doing business in Idaho and will be doing projects in Idaho. In his opinion, this committee has the following charges:

1. To find incentives that promote the development of renewable energy within the state.

2. To decide how to create the best package and to decide what the end result will look like. Having renewables that do what the committee wants for the local communities, counties and the state is the answer.

Mr. Carkulis stated that there are two elements to the renewables business. Profit is the main goal. If profit is stimulated, the amount of renewables located within the state is stimulated. The primary issue is segregating between large and small projects. Large developments are regionally competitive. Small developments vary depending on what they can do for the state, the transmission grid, various counties and communities and overall for the state tax coffers.

Russ Hendricks, Farm Bureau, testified in support of a sales tax exemption for renewable energy due to the ease of implementation and because it would provide the benefit up front.

Representative Ann Rydalch, District 32 and INEEL, gave the committee some background information regarding what has been done at the federal level through the past ten years. In 1993 and 1994 the electric industry came to the Department of Energy and the Renewable Energy Department and asked for help with ways to develop more energy efficient technologies for the future. The Department asked what the needs were and then solicited bids to bring those technologies back. In nine industries, this has been happening for the last ten years. These nine industries represent about 75% of the energy used in the nation. These include agriculture, aluminum, glass, chemical, forest products, metal casting, mining, petroleum and steel. Idaho

became an industry of the future state in 2000. The Energy Office competed and obtained a grant from the Department of Energy to implement industries of the future and that was implemented. Forest and mining were the areas concentrated on at first and food processing has recently been added. Within a two year time frame, over $11 million dollars has been brought in for research and development through industry partnerships with agriculture, forest and mining. **Representative Rydalch** stated her concern for the continued federal involvement in such a program. She continued that new technologies are being developed and it is the state's responsibility to make sure these energy efficient technologies are being used by industry and suggested a study be done identifying Idaho businesses that would benefit from those new technologies. **Mr. Bob Nielsen, INEEL,** stated that INEEL is an energy technology laboratory and offered their services to the committee in the future.

Karl Bokenkamp, Idaho Power Company, was introduced to discuss the company's 2004 Integrated Resource Plan (IRP). He explained that the goals of the IRP are as follows:

Acquire sufficient resources to reliably serve the growing demand for electricity throughout the 10-year planning period
Ensure that resources selected are cost effective and low-risk
Give equal and balanced consideration of supply side and demand side resources
Involve the public in a meaningful way

The 2004 IRP includes a 16 member advisory council that includes major customers or customer groups, Idaho and Oregon Public Utility Commission staff, environmental groups, Idaho Governor's Office, Idaho State Legislature and the Idaho Department of Water Resources.

Mr. Bokenkamp noted that this plan is preliminary and Idaho Power hopes to have a public draft ready by the end of June or early July that will be filed with the PUC by the end of August.

Idaho Power's existing generation resources break down as follows

Hydro	59%	1,707 MW
Coal	38%	1,110 MW
Natural Gas	3%	90 MW
Diesel	-%	5 MW

He explained that the annual average load for Idaho Power's system is 1,700 MW with a summer peak of 3,000 MW. The projected summer peak growth is 80 MW or 2.5%.

In looking at preliminary results of the IRP, the approach was similar to the 2002 IRP. Production costs were looked at on a 30-year nominally levelized cost of production (cost per megawatt hour) and a 30 year nominally levelized fixed cost of operation (cost per kilowatt month). **Mr. Bokenkamp** said that the cost per megawatt hour assumes certain capacity factors for the resource. In other words, it assumes the resource has to run a certain amount of time to spread its costs over some bucket of megawatt hours. So if projects run a lot, the cost per

megawatt hour may be low and a resource that does not run a lot and is there just to support a peak time need would have a very high cost per megawatt hour. In this case, a peaking resource should be looked at because it would have a very low capital or fixed cost. These complete charts are available in the Legislative Services Office and at http://www2.state.id.us/legislat/2004%20Interim/04intcom.html#electric.

Mr. Bokenkamp noted that as Idaho Power looks ahead to 2013, a number of resources are going to be required to meet the projected loads. Instead of picking one type of resource, the company analyzed a number of different portfolios of resources and compared them. Overall 12 portfolios were analyzed. Eight of those were balanced resource portfolios. Two were primarily coal-fired resources, one consisted of peaking resources and one consisted of wind and peakers. The top five portfolios included one that consisted of wind and peakers and four that were balanced.

The leading portfolio is a balanced portfolio consisting of the following:

350 MW wind
48 MW combined heat and power (CHP)
100 MW geothermal
88 MW peaker
62 MW peaker/distributed generation (DG)
500 MW coal (seasonal ownership)
124 MW demand side resources (efficiency & demand response DR)

In response to a question from **Senator Noh, Mr. Bokenkamp** explained the concept of seasonal ownership. Idaho Power's needs are driven by summer peaks and the company is currently a participant owner in three coal-fired projects. The company owns those split 24/7/365 meaning they are entitled to 1/3 of the output of the Jim Bridger plant around the clock. Seasonal ownership is the concept of a coal fired project that Idaho Power would have rights to the full output of the project during the summer and would partner with perhaps a winter peaking company for the other half of the year. The key here would be that the company would get full output at the cost associated with a baseload coal fired project during the months that it is needed without having to underwrite the capital component of it all year long. **Mr. Bokenkamp** added that they would try to locate a coal-fired plant within the state of Idaho due to transmission concerns with an out of state project.

Mr. Bokenkamp noted that in order to get the cost figures, Idaho Power used a number of sources for the data. The Department of Energy's annual energy outlook is heavily relied upon. The company also works with local developers and uses internal information.

The anticipated resource timing for the leading portfolio is as follows:

By 2013, Idaho Power anticipates the DSM programs in the plan to be producing 124 MW of outside savings or reduction in load.
In 2006, the first wind project will be on line.

In 2007, 88 MW of peakers, 100 MW wind and 12 MW of CHP will be in place
In 2008, 100 MW of geothermal will be on line.
In 2010, 150 MW wind, 36 MW CHP and 62 MW peaker/DG will be in place.
In 2011, 500 MW coal (seasonally) will be on line.

Representative Eskridge asked where the company plans to locate wind projects. **Mr. Bokenkamp** stated that the company anticipates wind and geothermal projects will be located in Eastern Idaho. He continued that from the analysis the company has done so far, the only incentive that was looked at was the federal production tax credit. The company is assuming this much wind development will happen with just the federal production tax credit. It depends what the market brings. He said that the company has not had time to study what additional state tax incentives would do to bringing more wind energy into supply. From an economic standpoint, in his opinion, any incentives offered would help encourage more projects.

The IRP timeline is as follows:

IPAC reviewing the IRP currently
IRPAC meeting on June 17, 2004
Public draft in late June, early July
Public meetings July/August
File plan in August

The likely action plan is:
2004

Requests for Proposals (RFP) for 200 MW wind in fall 2004
RFP for 88 MW peaker in fall 2004

2005

DSM programs begin
RFP for CHP projects
RFP for 100 MW geothermal
Identify coal plant participant

Mr. Russ Westerberg, PacifiCorp was the next speaker. He explained the PacifiCorp is a multi-state, vertically-integrated utility serving approximately 60,000 customers in Southeastern Idaho. As part of the company's objective to serve its customers, development of an IRP was initiated in 2002 to identify resource needs and prudent procurement actions. This IRP was released on January 24, 2003, with a second edition anticipated for release in December, 2004.

The January IRP was developed with considerable public involvement from customer interest groups, regulatory staff, regulators and other stakeholders. The IRP was submitted to all six states that regulate PacifiCorp and was acknowledged in those states with IRP standards and guidelines containing an acknowledgment process. Based on the research conducted as part of the public IRP process, the proposed resource additions include:

UP to 450 Mwa (average megawatts) of demand-side management
1,400 MW of renewable resources
2,100 MW of base load generating capacity
1,200 MW of peaking capacity
700 MW of shaped resource contracts.

PacifiCorp recognizes that integrated resource planning is a continuous process rather than a one-time or occasional event. The plan noted that changes or updates may be necessary as new information becomes available and the company is committed to update the Action Plan at least annually.

As a result of this planning and evaluation, PacifiCorp is able to conclude that resource requirements are growing much faster in the Eastern portion of the system (in which Idaho is located) than in the Western side, as compared with resources identified in the January IRP.

PacifiCorp's ongoing request for proposal (RFP) process is expected to provide additional information regarding resource availability, costs and timelines to help fill the accelerated Eastern side short position. This updated information and analysis provides PacifiCorp and interested parties with a new foundation for the 2004 IRP process, which began in December 2003.

The following projects have resulted from the RFP for the IRP:

Currant Creek Power Project — a 525 MW combined cycle flexible resource is now under construction in Mona, Utah. It is designed to be on line in two phases. When completed, PacifiCorp will have the ability to dispatch all 525 WE on a day-to-day basis in order to meet varying load and resource conditions.

Lake Side Power Project — PacifiCorp selected Summit Vineyard LLC to develop and Siemens Westinghouse Power Corporation to construct a combined cycle combustion turbine (CCCT) power plant and sell the asset to PacifiCorp upon completion. This project is expected to produce 534 MW of capacity by summer 2007.

PacifiCorp has received bids for 5,600 MW of new renewable resources in its request for proposal for adding 1,100 MW of renewable energy resources in the next seven years. Many of these proposals are for wind power projects that would be located in the western United States.

In response to a question from **Representative Smylie, Mr. Westerberg** stated that PacifiCorp has had no shortage of requests for wind projects. He does not know how many of those projects are located in Idaho. The company was very active in the state of Wyoming in securing a sales tax exemption for materials used in wind generation. **Mr. Westerberg** added that the company had no opposition to the legislation that was presented last year.

Mr. Westerberg said that approximately 200 MW of wind energy projects will be located in Idaho but does not have specific details. He said he would try to get a breakdown of the wind bids and what states those are coming from. **Representative Eskridge** said that information would be helpful because the committee needs to know what the potential is for these projects to come on line with or without incentives.

Mr. Neil Colwell, Avista was the next speaker. He stated that Avista's IRP process is similar to both Idaho Power and PacifiCorp. In responding to the question whether a sales tax exemption would be better than the tax incentives that were in last year's legislation, **Mr. Colwell** said that the investment tax credit is actually the same amount of money as a sales tax exemption, it is just that the timing is different. With a sales tax exemption, the project gets a 6% reduction up front at the time of development as opposed to getting that 6% over a period of years. He commented that any method of incentive other than a sales tax exemption affects the federal incentives.

As to the availability of wind resources without incentives, **Mr. Colwell** stated that in Avista's IRP wind was modeled for into the future. In actuality the company has contracted for 15 MW of wind to come into the system from the state of Washington.

To put this in perspective, **Mr. Colwell** explained that the 2003 IRP implemented a computer modeling tool that charts the entire western states coordinating council (this is the electrical grid in the western United Stated, northern Mexico and southern Canada). This tool looked at hourly loads and resources projected out over the next 20 years. For the years 2004 to 2013, the model selected combined or simple cycle combustion turbines, wind and some coal resources. For 2013 on, the model pointed to the acquisition of coal resources. Avista has no immediate need for resources and does not expect any capacity shortage until 2010. Given this, Avista is going to continue to refine the analysis process to help determine what the company will need to do in the future.

The modeling process looked at single and combined cycle turbines, coal plants, wind resources, solar and some co-generation. A 2001 IRP included a much larger selection of resources including geothermal, nuclear, advanced biogasification, new hydroelectric facilities and high-cost solar projects. These were eliminated in the 2003 version because the 2001 selections proved to be very high cost. Avista should maintain about a 12% reserve margin through 2009 and so will continue to model what will be needed for the future.

In response to a question from **Representative Smylie, Mr. Colwell** explained that the reason for surplus resources is due to the shut down of some large manufacturing plants in the company's service area and the slowing of the economy. Avista also had the impacts of the energy pricing crisis in 2000 and 2001 that caused some diminishment of demand by customers. This is strictly price driven. The company also has a number of demand side management programs in place to reduce customer load that will continue into the future. Demand has been flat from 1997 to 2002. The company has projected about a 3% load growth increase on the system going forward. **Representative Smylie** asked if the availability of power is related to economic growth. **Mr. Colwell** said that an area does need to have affordable sources of power

in order to stimulate economic growth. The goal of the utility industry, in conjunction with large manufacturers, has been to diminish the amount of energy they need to run their businesses. These industries have also been doing this on their own and considerable savings has been accomplished this way. Avista has also acquired resources to ensure that the company is not relying strictly on the market to provide energy needs for customers.

Representative Eskridge asked for information regarding if Avista received any interest from Idaho producers to answer the RFP for renewables. **Mr. Colwell** said that he would get that information for the committee.

Mr. Ron Williams, ICUA was the next speaker. He explained that ICUA consists of 20 members, ten are cities and ten are electric cooperatives. The two largest cities are Idaho Falls and Burley. Kootenai Electric and Northern Lights are the two largest cooperatives located in northern Idaho. These two co-ops serve all of northern Idaho, not including the cities of Coeur d'Alene and Sandpoint, as well as Montana and Wyoming. These co-ops do have pretty significant transmission and distribution costs but, as a general rule, none of the ICUA members are in the power generation business. These are simply distribution cooperatives that receive electric power on a wholesale basis and provide it to customers on a retail level. The Bonneville Power Administration (BPA) supplies virtually all of the electricity that ICUA members distribute to their customers. BPA has passed through rate increases in excess of 40% in the past few years to ICUA members and, as a result, all of the northwest region including ICUA members are concerned with cost control at BPA. The question is how to get BPA to do this and what happens when current BPA supply contracts expire in 2011. Concepts such as allocating BPA resources out to existing customers and allowing the individual public power entities decide what to do with their own load growth are being considered. This would involve allowing ICUA members to either acquire additional resources on their own or to rely solely on BPA for power. This is a very important regional issue at this time and is something that needs to be solved before 2011. **Mr. Williams** noted that regarding the issue of controlling BPA rates, the ICUA is looking several things. One involves questioning the value of summer spill where about $80 million of lost revenues to BPA or costs to ICUA members are incurred in passing water through the dams without generating electricity. This is intended to recover salmon but it actually only brings back less than 100 endangered species salmon. The ICUA is asking that the money they supply as rate payers to BPA for conservation and fisheries be spent wisely.

Mr. Williams continued that another issue that is of primary importance to the ICUA is long-term transmission stability. There is actually no actual transmission contracts that guaranty delivery of federal power to the ICUA. BPA has contracted with the investor owned utilities, such as Idaho Power, to use their transmission lines to deliver power. In certain instances this leaves ICUA members vulnerable to the actual delivery or to the costs associated with that delivery.

Mr. Williams stated that there is some concern from southern Idaho and south central Idaho ICUA members that have dairies regarding the impact of stray voltage on their cattle. He explained that, in terms of potential economic damage, stray voltage has a documented

impact on milk production in dairy cows. **Mr. Rich Hahn, Idaho Power Company,** explained that another way to describe stray voltage is neutral to earth voltage. This involves a multi-grounded system that has a return path to the source of the electricity. In this type of system there is always a certain amount of current that returns to that source and if certain conditions exist, this returning voltage can increase. At certain levels, the dairy cows can feel it and their behavior changes. **Mr. Hahn** continued that there is a suggested standard set by the U.S. Department of Agriculture (USDA). In 1991, the USDA published what is known as "the Red Book". This gives recommendations on how to minimize stray voltage, what can be done on the utility system and the dairy system to minimize this. This book also contains a range that, based on research, the USDA feels does not cause behavioral changes in dairy cows. In response to a question from **Senator Noh, Mr. Hahn** stated that there are many causes for stray voltage. These include older equipment on the utility or load side, equipment with corroded grounds, corroded neutrals or broken grounds on the dairy side. There are many possibilities. Idaho Power has power quality engineers in the field that actually measure for this and where it comes from. There is not a standard set even though the Red Book is used as a guideline. There are differing opinions regarding whether that standard is adequate.

Senator Noh asked for an explanation of litigations costs regarding stray voltage cases that Idaho Power has been involved in. **Mr. Hahn** said that there was a case in Twin Falls that was decided by a jury that awarded $17.5 million to the plaintiffs. The company does plan to appeal this decision. **Mr. Hahn** continued that a second lawsuit has been filed against Idaho Power that has requested a jury trial. Litigation costs for the Twin Falls case alone were quite high.

In response to a question from **Representative Eskridge, Mr. Williams** clarified that the General Transfer Agreements are very important to the ICUA as utilities but from a legislative standpoint, it is not a jurisdictional issue.

Mr. Neil Colwell, Avista, in response to a question that was asked earlier regarding bids for wind power stated that Avista went nationwide for bids. Bids were received from Washington, Oregon and Montana. The bids were anywhere from 25 to 50 MW and the contracts was signed for 35 MW over a ten year period with an opportunity to reduce it to 25 MW if decided by November of this year. There were no bids from Idaho. He suspected that the bids came mostly from facilities that are already in place and operating. Idaho projects are just in the start-up phase.

Senator Noh spoke to the committee regarding the proposed Sempra coal fired power plant to be located on the Snake River east of Glenns Ferry. He stated that this appears to be a major coal fired project that is at least in the development phase. There was a report of this project in April in the Twin Falls newspaper. This plant is to be located on property that San Diego Gas and Electric has options on. He said the exploration has been happening on that property for about one year with very little discussion of what is involved. This project is underway and would use Idaho water to operate. This would be a large facility that would discharge an excess of 250 tons per year of pollutants into the air. This is the minimum level from where a meteorological data would be required.

Senator Noh continued that after speaking to several people that worked for the company and inviting them to speak to the committee, the development people said they were not interested and were shocked that anyone knew anything about the project. The company also said that their water rights were not lined up and everything was still in the development stage.

Mr. Paul Kjellander, PUC, commented that the primary reason the PUC would not have knowledge of this project is because the plant would be a merchant venture. Until some kind of contractual arrangement is made with an investor owned utility, the PUC would not be involved. There would be no reason for a company like Sempra to file anything with the PUC because the Idaho PUC does not have any statutory siting authority.

Mr. Kjellander stated that coal fired generation is possibly the next favored resource that will be developed. This is due to the high cost of natural gas. **Representative Eskridge** noted that as the state moves away from reliance on hydro power, it is important to remember that other sources may cause air quality issues.

Senator Noh said that, in his opinion, Idaho needs to develop a state siting statute for projects such as this controversial coal fired plant. Without a state statute siting is left up to local planning and zoning. Another issue for the state is who owns the transmission facilities and what is their capacity. Unregulated merchant facilities could put the state in a position of seeing our water and electrical capacity benefitting other states.

Mr. Lawrence Schoen asked if Idaho Power's anticipation of 100 MW of wind generated power is realistic since this exceeds the projection for natural gas. **Mr. Bokenkamp** answered that Idaho Power talked with developers of Idaho projects and there are projects that exist that are large enough to provide 200 MW of wind power. This is nameplate capacity.

Mr. Doug Glaspey, U.S. Geothermal stated that his company has a 10 MW geothermal contract in front of the PUC at this time. This does not show up in Idaho Power's IRP until 2008. **Mr. Bokenkamp** explained that the IRP lumps the smaller cogeneration and small power producers together and consider them in one block in the analysis.

Representative Smylie suggested that the committee develop legislation for the next session that includes a sales tax exemption for alternative power projects. From the discussion today, in his opinion, this would be appropriate. In order to make an informed judgment, he said that more information is needed. In comparing Idaho to surrounding states, the overall tax climate needs to be considered.

Representative Stevenson stated his support for a sales tax exemption due to the fact that it is definitive and up front and if a project is not built, there is no impact on the state coffers. Before this committee makes that decision, in his opinion, more information is needed from the State Tax Commission.

Representative Cuddy said it seems that there are two issues: plants above 10 MW and plants

below 10 MW. He suggested asking how PURPA rates will be treated by the PUC if a sales tax exemption is given on a 10 MW or less project. He said he would like information regarding where the power produced by wind projects in Wyoming is going - east or west.

Representative Eskridge stated that presentations would be arranged from the Tax Commission and the PUC for the next meeting of the committee to provide this information. It would appear to him that the committee is still interested in proposing legislation that promotes renewable energy policy for the next session. He would like to get this finalized before the session begins.

Representative Cuddy suggested that some thought should be given to projects that produce power and also enhance air or water quality receiving additional incentives. **Representative Eskridge** stated that for projects under 10 MW a favorable PURPA policy is already in place and he wondered if anything additional needs to be done in that area.

Representative Eskridge added that in developing state policy, since the federal policy is not yet in place, the state needs to be careful to not reduce the federal benefits with state legislation.

Senator Stegner commented that he anticipates that the legislature will respond to the Governor's action with additional legislation this year. The committee seems to be headed in that direction.

The meeting was adjourned at 3:10.